The Manitoba Hydro-Electric Board

# Quarterly Report

for the nine months ended
December 31, 2017

# Report from **The Chair of the Board** and by **The President and Chief Executive Officer**

## Financial Overview

Manitoba Hydro's consolidated net loss was $43 million for the first nine months of the 2017-18 fiscal year compared to a net loss of $28 million for the same period last year. The increase in the net loss is primarily attributable to restructuring costs driven by the implementation of a significant cost reduction program. Excluding the restructuring expenses, Manitoba Hydro would have reported net income of $4 million, an improvement of $29 million over the prior year. The improvement is mostly attributable to colder third quarter weather resulting in an increase of $20 million in domestic electric revenue, higher dependable export volumes from favourable water conditions earlier in the year and higher prices on dependable sales which led to a $14 million improvement in extraprovincial revenues (net of power purchased and water rental expenses) along with an $8 million reduction in operating and administrative expenses as a result of cost reduction programs. Higher depreciation and amortization expense offset part of these gains as new assets were placed in-service. The cost of natural gas is a flow through cost passed onto customers through rates approved by the Public Utilities Board (PUB) and therefore is not a driver for the increase in net loss compared to the prior year.

The consolidated net loss was comprised of a $33 million loss in the electricity segment, a $17 million loss in the natural gas segment, a $5 million net profit in other segments and a $2 million profit impact in adjustments and eliminations.

Manitoba Hydro is projecting net income of approximately $40 million for fiscal 2018, which is consistent with the estimate made at the second quarter. The decrease in projected net income compared to budget is primarily due to the PUB's decision to deny the corporation's request for a 7.9% interim rate increase as at August 1, 2017, a continuation of weaker than forecast opportunity prices in the export market and higher financing costs. These factors continued through the third quarter while water conditions returned to average levels after a dry summer. The projection for the remainder of the year assumes average water flow conditions and normal winter weather.

## Electric Segment

Revenues from electricity sales within Manitoba totaled $1 022 million for the nine-month period, which was $20 million or 2% higher than the same period last year. The increase in domestic revenue was primarily attributable to colder third quarter weather and customer growth. Extraprovincial revenues of $366 million were $8 million or 2% higher than the same period last year reflecting higher dependable sales volumes predominantly as a result of

higher generation due to favourable water conditions earlier in the year along with modestly higher export prices on opportunity sales, partially offset by lower opportunity volumes due to transmission outages. Overall, energy sold in the export market was lower at 8.5 billion kilowatt-hours compared to 8.9 billion kilowatt-hours sold in the same period last year. Other revenues of $23 million were $2 million or 10% higher than the same period last year due to an increase in projects for third parties.

Expenses attributable to electricity operations, including the net movement in regulatory deferral balances, totaled $1 452 million for the nine-month period. This represented an increase of $42 million or 3% as compared to the same period last year. The increase was primarily due to a $58 million increase in other expenses and a $10 million increase in depreciation and amortization. The increase in other expenses was primarily due to $43 million in restructuring charges associated with the voluntary departure program as well as higher demand side management costs which are offset in net movement in regulatory balances. The increase in depreciation and amortization was primarily due to new additions to plant being placed into service. Excluding the impacts of restructuring charges, expenses attributable to electricity operations decreased 0.1%.

The net loss before net movement in regulatory balances is $106 million. The net movement in regulatory balances captures the timing differences of revenues and expenses for financial reporting purposes and those amounts approved by the PUB for rate-setting purposes. After considering the net movement of $65 million in the regulatory deferral balances, there is a net loss of $41 million of which $33 million is attributable to Manitoba Hydro and $8 million is attributable to non-controlling interest. The non-controlling interest represents Taskinigahp Power Corporation's 33% share of the Wuskwatim Power Limited Partnership's operating results for the first nine months of the 2017-18 fiscal year.

Expenditures for capital construction for the nine-month period amounted to $2 136 million compared to $1 960 million for the same period last year. Expenditures for the current period included $913 million related to construction of the Keeyask project and $814 million for the Bipole III Reliability project. The remaining capital expenditures were predominantly incurred for ongoing system additions and modifications necessary to meet the electrical service requirements of customers throughout the province. The corporation also incurred $49 million for electric demand side management programs.

## Natural Gas Segment

The net loss in the natural gas segment was $17 million for the nine-month period compared to a $16 million net loss for the same period last year. The slight increase in the net loss is primarily due to restructuring costs. Delivered gas volumes were 1 218 million cubic metres compared to 1 213 million cubic metres for the same period last year.

Expenses attributable to natural gas operations excluding cost of gas sold amounted to $114 million compared to $109 million for the same period last year. The increase in expenses is primarily attributable to restructuring charges of $3 million allocated to the natural gas segment.

The net loss before net movement in regulatory balances is $27 million. After considering the net movement of $10 million in the regulatory balances, there is a net loss of $17 million.

Capital expenditures in the natural gas segment were $27 million for the current nine-month period compared to $47 million for the same period last year. Capital expenditures are related to system improvements and other expenditures necessary to meet the natural gas service requirements of customers throughout the province. The corporation also incurred $7 million for gas demand side management programs.

## Other Segments

The other segments include Manitoba Hydro International Ltd., Manitoba Hydro Utility Services, Minell Pipelines Ltd. and Teshmont Holdings Ltd. The net income was $5 million in other segments for the nine-month period compared to net income of $6 million for the same period last year. Revenue was $47 million compared to $46 million for the same period last year. Expenses attributable to other segments amounted to $42 million which was $2 million higher than the prior year principally due to foreign exchange losses.

There is also a $2 million profit impact in adjustments and eliminations as a result of the requirement to harmonize accounting policies between electric and natural gas operations related to the gas meter exchange program.

## 2017-18 General Rate Application Begins

On December 4, 2017, public hearings on the 2017-18 General Rate Application (GRA) began before the PUB.

Manitoba Hydro's application requested a 7.9% increase for August 1, 2017 and a further 7.9% increase for April 1, 2018. Manitoba Hydro believes such rate increases are necessary first steps in a 10 year financial plan to address substantially increasing costs as first the Bipole III Reliability project and then the Keeyask Generating Station enter service and unsustainable debt levels. By taking strong action to address Manitoba Hydro's deteriorated financial position and outlook, Manitoba customers can expect lower and more stable rates in the long run. In August, the PUB approved a 3.36% interim rate increase which is to be added to the previously established Bipole III deferral account.

The PUB hearing will review the interim rate increase (and the August 1, 2016 interim rate increase) and the requested 7.9% increase for April 2018. The PUB hearing is scheduled to end February 14, 2018. The GRA process and hearing have been comprehensive with broad participation by intervener groups representing numerous customer groups and interests along with outside experts retained by the PUB. Since filing its application in May 2017, Manitoba Hydro has responded to approximately 2 150 information requests and has filed over 30 000 pages of documents as evidence.

In addition to rate increases, Manitoba Hydro's 10 year financial plan also included a management restructuring and a 15% workforce reduction, continuing efforts to lower operating costs and pursuit of additional sales of surplus electricity outside of Manitoba.

## Natural Gas Rate Decrease

In accordance with Manitoba Hydro's methodology to change natural gas rates every quarter depending on the price of gas purchased from Alberta (and as approved by the PUB), rates for residential customers decreased on November 1, 2017 by 2.7% or approximately $19 per year. Rate changes for larger volume customers ranged from decreases of 3.2% to 6.4% depending on the customer class and consumption levels.

The bill impacts are primarily the result of changes in the price that Manitoba Hydro pays for natural gas from Alberta.

## Electrical Service Restored for 26 000 Customers

Over 26 000 customers were left without electrical service October 18, 2017 when a powerful wind storm hit the province, toppling trees onto power lines across Manitoba. Winds exceeding 90 km/h in some areas started affecting Manitoba Hydro's distribution system about 3 a.m. Customers began making outage reports shortly after.

Manitoba Hydro crews from across the province responded immediately with the majority of staff working in the hardest hit areas, which included the Parkland, Interlake and Northman regions. Staff responding in Duck Bay and Langruth also had to contend with a marsh fire.

By 2 p.m., power had been restored to over 12 000 customers and by 5:30 p.m. approximately 18 000 customers were restored. By midnight, around 25 000 customers had their power restored. The remaining customers were restored the next day.

## Manitoba Hydro Named One of Canada's Top 100 Employers

Manitoba Hydro was named one of Canada's Top 100 Employers for 2018 on November 6, 2017 by the Canada's Top 100 Employers project. The selection marked the eighth year Manitoba Hydro has achieved the distinction.

The Canada's Top 100 Employers project is an application-based competition that examines eight subject areas when evaluating a workplace's quality for employees. The top three subject areas (and grades for Manitoba Hydro) are physical workplace (A); work atmosphere and communications (A+) and financial benefits and compensation (A). Health and family-friendly benefits, vacation and personal time off, employee engagement and performance, training and skills development and community involvement are the other subject areas.

Manitoba Hydro was also singled out as enabling employees to support charities through payroll deductions and maintaining an employee fund to provide financial assistance to employees in need—more than 175 people have received support since the fund's inception in 2002.

## Winnipeg Customer Service Operations Consolidate

On November 21, 2017 the electric operations from Keewatin and River East Customer Service Centres (CSCs) were merged with the existing St. Boniface, Fort Garry and City Centre CSCs. The consolidation of five CSCs to three is one example of restructuring for improved efficiencies and service that Manitoba Hydro is undertaking in response to the corporation's Voluntary Departure Program. Manitoba Hydro has committed to reducing its workforce by approximately 15% to strengthen its financial performance, while at the same time ensuring front-line staff can be even more responsive to customer needs.

The consolidation allows for the centralization of planning, administrative support, streetlight maintenance, underground services and non-trade service work. The centralized work planning will improve Manitoba Hydro's ability to prioritize and schedule work city-wide to ensure consistent customer service levels. It also provides a single point of contact for most customers and reduces internal costs.

*H. Sanford Riley*
Chair of the Board

*Kelvin Shepherd, P. Eng.*
President and
Chief Executive Officer
February 14, 2018

## Consolidated Statement of Income

*In Millions of Dollars (Unaudited)*

| | *Nine Months Ended December 31* | | *Three Months Ended December 31* | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| **Revenues** | | | | |
| Domestic – Electric | 1 022 | 1 002 | 393 | 382 |
| – Gas | 202 | 201 | 114 | 106 |
| Extraprovincial | 366 | 358 | 91 | 111 |
| Other | 64 | 63 | 21 | 24 |
| | 1 654 | 1 624 | 619 | 623 |
| **Expenses** | | | | |
| Cost of gas sold | 116 | 103 | 63 | 61 |
| Operating and administrative | 444 | 452 | 141 | 150 |
| Finance expense (net) | 471 | 469 | 147 | 154 |
| Depreciation and amortization | 316 | 305 | 106 | 102 |
| Water rentals and assessments | 95 | 96 | 31 | 34 |
| Fuel and power purchased | 93 | 98 | 36 | 36 |
| Capital and other taxes | 111 | 105 | 37 | 36 |
| Other expenses | 135 | 75 | 36 | 28 |
| | 1 781 | 1 703 | 597 | 601 |
| Net income (loss) before net movement in regulatory balances | (127) | (79) | 22 | 22 |
| Net movement in regulatory balances | 76 | 41 | 23 | 18 |
| Net Income (Loss) | (51) | (38) | 45 | 40 |
| Net income (loss) attributable to: | | | | |
| Manitoba Hydro | (43) | (28) | 46 | 44 |
| Non-controlling interest | (8) | (10) | (1) | (4) |
| | (51) | (38) | 45 | 40 |

## Consolidated Statement of Financial Position

*In Millions of Dollars (Unaudited)*

| | *As at December 31* | *As at March 31* | *As at December 31* |
|---|---|---|---|
| | **2017** | **2017** | **2016** |
| **Assets** | | | |
| Current assets | 1 235 | 1 262 | 1 345 |
| Property, plant and equipment | 21 673 | 19 757 | 18 915 |
| Non-current assets | 854 | 753 | 685 |
| Total assets before regulatory deferral balance | 23 762 | 21 772 | 20 945 |
| Regulatory deferral balance | 635 | 566 | 536 |
| | 24 397 | 22 338 | 21 481 |
| **Liabilities and Equity** | | | |
| Current liabilities | 2 247 | 1 621 | 1 198 |
| Long-term debt | 17 285 | 16 102 | 15 871 |
| Other long-term liabilities | 1 571 | 1 525 | 1 600 |
| Deferred revenue | 772 | 653 | 614 |
| Non-controlling interest | 193 | 170 | 160 |
| Retained earnings | 2 856 | 2 899 | 2 799 |
| Accumulated other comprehensive loss | (597) | (709) | (822) |
| Total liabilities and equity before regulatory deferral balance | 24 327 | 22 261 | 21 420 |
| Regulatory deferral balance | 70 | 77 | 61 |
| | 24 397 | 22 338 | 21 481 |

## Consolidated Cash Flow Statement

*In Millions of Dollars (Unaudited)*

| | *Nine Months Ended December 31* | | *Three Months Ended December 31* | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| **Operating Activities** | | | | |
| Earnings before depreciation, amortization and net finance expense (adjusted EBITDA) | 737 | 735 | 299 | 295 |
| Adjustments for non-cash items included in adjusted EBITDA | (20) | 15 | (6) | 10 |
| Adjustments for non-cash working capital accounts | (241) | 120 | (108) | (44) |
| Net interest paid | (628) | (577) | (152) | (147) |
| | (152) | 293 | 33 | 114 |
| **Investing Activities** | (2 018) | (1 885) | (615) | (545) |
| **Financing Activities** | 2 189 | 1 362 | 633 | 76 |
| **Net increase (decrease) in cash** | 19 | (230) | 51 | (355) |
| **Cash at beginning of period** | 646 | 955 | 614 | 1 080 |
| **Cash at end of period** | 665 | 725 | 665 | 725 |

## Consolidated Statement of Comprehensive Income (Loss)

*In Millions of Dollars (Unaudited)*

| | *Nine Months Ended December 31* | | *Three Months Ended December 31* | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| **Net Income (Loss) attributable to Manitoba Hydro** | (43) | (28) | 46 | 44 |
| **Other Comprehensive Income (Loss)** | | | | |
| **Items that will be reclassified to income** | | | | |
| Unrealized foreign exchange gains (losses) on debt in cash flow hedges | 95 | (61) | (9) | (42) |
| **Items that have been reclassified to income** | | | | |
| Realized foreign exchange (gains) losses on debt in cash flow hedges | 17 | 15 | 4 | 5 |
| | 112 | (46) | (5) | (37) |
| **Comprehensive Income (Loss) attributable to Manitoba Hydro** | 69 | (74) | 41 | 7 |

## Segmented Information

*In Millions of Dollars (Unaudited)*

| | Electric Segment | | Natural gas segment | | All other segments | | Eliminations | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| *Nine Months Ended December 31* | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** |
| **Revenue** | 1 411 | 1 380 | 203 | 202 | 47 | 46 | (7) | (4) | 1 654 | 1 624 |
| **Expenses** | 1 518 | 1 457 | 230 | 212 | 42 | 40 | (9) | (6) | 1 781 | 1 703 |
| **Net income (loss) before net movement in regulatory balances** | (107) | (77) | (27) | (10) | 5 | 6 | 2 | 2 | (127) | (79) |
| **Net movement in regulatory balances** | 66 | 47 | 10 | (6) | - | - | - | - | 76 | 41 |
| **Net Income (Loss)** | (41) | (30) | (17) | (16) | 5 | 6 | 2 | 2 | (51) | (38) |
| **Net income (loss) attribute to:** | | | | | | | | | | |
| **Manitoba Hydro** | (33) | (20) | (17) | (16) | 5 | 6 | 2 | 2 | (43) | (28) |
| **Non-controlling interest** | (8) | (10) | - | - | - | - | - | - | (8) | (10) |
| | (41) | (30) | (17) | (16) | 5 | 6 | 2 | 2 | (51) | (38) |
| *Three Months Ended December 31* | | | | | | | | | | |
| **Revenue** | 491 | 501 | 114 | 106 | 17 | 16 | (3) | - | 619 | 623 |
| **Expenses** | 485 | 491 | 102 | 97 | 14 | 13 | (4) | - | 597 | 601 |
| **Net income (loss) before net movement in regulatory balances** | 6 | 10 | 12 | 9 | 3 | 3 | 1 | - | 22 | 22 |
| **Net movement in regulatory balances** | 26 | 19 | (3) | (1) | - | - | - | - | 23 | 18 |
| **Net Income (Loss)** | 32 | 29 | 9 | 8 | 3 | 3 | 1 | - | 45 | 40 |
| **Net income (loss) attribute to:** | | | | | | | | | | |
| **Manitoba Hydro** | 33 | 33 | 9 | 8 | 3 | 3 | 1 | - | 46 | 44 |
| **Non-controlling interest** | (1) | (4) | - | - | - | - | - | - | (1) | (4) |
| | 32 | 29 | 9 | 8 | 3 | 3 | 1 | - | 45 | 40 |
| **Total assets** | 23 802 | 20 897 | 756 | 722 | 95 | 83 | (256) | (221) | 24 397 | 21 481 |

## Generation and Delivery Statistics

| | *Nine Months Ended December 31* | | *Three Months Ended December 31* | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| **Electricity in gigawatt-hours** | | | | |
| Hydraulic generation | 26 302 | 26 608 | 8 376 | 9 317 |
| Thermal generation | 37 | 32 | 26 | 13 |
| Scheduled energy imports | 108 | 31 | 73 | 20 |
| Wind purchases (Manitoba) | 729 | 720 | 301 | 286 |
| Total system supply | 27 176 | 27 391 | 8 776 | 9 636 |
| **Gas in millions of cubic metres** | | | | |
| Gas sales | 748 | 670 | 485 | 406 |
| Gas transportation | 470 | 543 | 203 | 198 |
| | 1 218 | 1 213 | 688 | 604 |

The Manitoba Hydro-Electric Board

# Quarterly Report

for the nine months ended
December 31, 2017

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